THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

National Intelligence Officers

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NOTE FOR: Mr. William Casey

In our brief discussion yesterday evening you asked me to provide you with the brief statement from my note of 10 September 1981 which discussed the linkages among radical destabilization, increased oil prices, economic difficulties for the west and the resulting reduction of resources available for defense and other needs. This follows along with a brief illustration of the potential costs to the US alone of different radical destabilization successes:

> "In 1978 I tried to convince leaders in the previous administration that if the Shah fell, there would be an immediate rise in oil prices, and the resulting economic problems (inflation, balance of payments deficits) in the West would further weaken the capability of governments to provide adequate resources for defense. Literally, prudent, preventive actions in Iran, Afghanistan, and Nicaragua in 1978 would have saved tens of billions of dollars.
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> "We face a similar situation today. Inexpensive political-paramilitary action investments by the Soviet Union, Cuba, Libya, and other anti-Western forces are increasing the risks of destabilization in Central America/Mexico; Zaire and Southern Africa; and the countries surrounding Saudi Arabia.
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> "In my personal judgment: if North Yemen falls, if the Somali Liberation Front makes Berbera unusable, if there is a successful destabilization in one of the Persian Gulf mini-oil states, if El Salvador falls and Guatemala follows--the impact will be immediate increases in oil prices bringing on substantial economic difficulties and further reducing the willingness of democratic governments to invest sensibly in defense.
>
> "Individuals without a geopolitical understanding fail to see these essential connections until the crisis is upon us. Perhaps Secretary Weinberger, as an old friend of President Reagan, could join in helping the President understand that the success

of his domestic economic program as well as his foreign policy may depend in substantial measure on prudent political and other actions today which will prevent further successful destabilization in three strategic focal points: Central America/Mexico; Southern Africa, and the Persian Gulf."

Radical Destabilization: Potential Impact on Oil Prices and the Resulting Additional Costs to the US--An Illustration Only

Currently the US imports about six million barrels per day times 365 days equals approximately 2.2 billion barrels per year. For each of the destabilization cases, I shall roughly estimate a range of effects on oil prices due to political apprehension or the actual physical reduction in supply believed imminent as a result of increased strength for radical forces. This illustrates the potential value of prudent preventive measures now.

Cases	Impact Through Increased Oil Price & Added Annual US Import Costs			
	Modest +$/Barrel	+$Billion for Imports	Large +$/Barrel	+$Billion for Imports
A-Fall of North Yemen to PDRY	2	$4.4 billion	5	$11 billion
B-Somali Lib. Front making Berbera unusable	1	2.3	3	6.6
C-PFLO takeover in Oman	4	8.8	8	17.6
D-Destabilization of Kuwait or other gulf mini-oil state	5	11	10	22.0
E-Radical success in Guatemala (1982-3) & perceived/actual threat to Mexico	4	8.8	8	17.6
F-Serious political violence in Mexico (1983-5)	5	11	10	22

Obviously this chart only illustrates a range of personal estimates. However, it might well be worth trying to be systematic about and do this type of forecast on a periodic basis using a range of other costs (defense requirements, care for additional refugees, etc). I shall discuss this analysis issue with Mr. McMahon and Mr. Rowen.

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NIO/LA

cc: DDCI, DD/NFA, C/NIC